

ARIZONA TAX NEWS

Jane Dee Hull, Governor

Mark W Killian, Director

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Arizona Department of Revenue Mission Statement

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Largest Auction Ever for DOR's Tobacco Enforcement Unit

The Tobacco Enforcement Unit of the Criminal Investigation Section conducted a sealed bid sale of approximately 31,819 packs of seized cigarettes, 3757 seized cigars, and 601 jars of other seized tobacco products. Approximately 10 distributors and manufacturers participated in the bidding process. The auction was held at the Department of Revenue's warehouse.



The grand total from the tobacco auction was \$67,744.87. These funds were deposited in the state general fund. This is the most successful auction since the Tobacco Enforcement Unit was created.

Above: Tobacco products seized by the Department's Tobacco Enforcement Unit on display at the DOR warehouse for prospective bidders to view prior to the auction.



Right: Representatives from the Philip Morris Co. destroy tobacco products they purchased at the DOR Auction.

An Enforcement Unit Spokesman says "Manufacturer's will sometimes purchase and destroy tobacco at auctions if they suspect the product may be stale."

*** **REMINDER** ***

FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your
June 2002 TPT return no later than
July 25, 2002 or deliver to DOR no later than
July 30, 2002.**

APRIL SUMMARY OF GENERAL FUND REVENUES

	<u>April 2002</u>	<u>Fiscal Year Total</u>
Individual Income Tax		
Net Collections	\$210,222,902	\$1,493,323,309
Percent Change *	(25.1%)	(7.9%)
Corporate Income Tax		
Net Collections	\$71,345,538	\$271,057,970
Percent Change *	(28.9%)	(40.2%)
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$260,833,120	\$2,470,725,162
Percent Change *	0.1%	(0.3%)
Total Big Three Tax Types		
Net Collections	\$542,401,560	\$4,235,106,441
Percent Change *	15.5%	(7.0%)

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax Individual Income Tax Receipts

	<u>April 2002</u>	<u>April 2001</u>	<u>%</u>
Gross Collections	\$303,233,433	\$338,244,194	(10.4)
Withholding	185,131,798	179,747,852	3.0
Refunds	(243,041,738)	(240,125,606)	19.1
Urban Rev Sharing	(35,100,591)	(33,037,720)	6.2
Net Collections	\$210,222,902	\$280,828,720	(25.1)
Fiscal Year Total (01/02) (00/01) %			
Gross Collections	\$602,104,290	\$663,620,449	(9.3)
Withholding	1,939,274,082	1,955,758,679	(0.8)
Refunds	(696,491,253)	(666,801,898)	4.5
Urban Rev Sharing	(351,563,810)	(330,377,200)	6.4
Net Collections	\$1,493,323,309	\$1,622,200,031	(7.9)

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. In April \$1,563,811 in alternative fuel vehicle credits were processed. After offsetting \$171,519 in tax liability, refunds for this credit totaled \$1,392,292. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit. Additional refunds were paid out of corporate income tax.

TAX CALENDAR

JULY 2002

Due Date	For Period Ending
4	State Holiday-Independence Day State Offices Closed
15	Income Tax Returns: 3/31/02
	Form 120: Corporation
	Form 140: Individual
	Form 141: Fiduciary
	Form 165: Partnership
15	Form 120: Corporation with Automatic Extension 9/30/01
15	Form 120S: S Corporation 4/30/02
15	Form 99: Exempt Organization Annual Information Return 3/31/02
15	Form 99T: Exempt Organization Form 120ES: Estimated Tax Payment, Corporation 3/31/03
	First Installment 1/31/03
	Second Installment 10/31/02
	Third Installment 7/31/02
22	Form TPT-1: Transaction Privilege Tax: 6/30/02
	June Monthly Filers 6/30/02
22	Bingo: Financial Reports 6/30/02
22	Luxury Tax: Various Forms 6/30/02
25	EFT Form TPT-1 and Payment: Transaction Privilege Tax: 6/30/02
	June Monthly Filers 6/30/02
31	Forms A1-QRT and A!-QRT-EZ Withholding 6/30/02

Withholding Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from: **Tony Manzo or Diane Sosinski** at (602) 542-4672.

ALTERNATIVE FUEL VEHICLE REPORT FOR MAY, 2002

Pursuant to A.R.S. §§43-1086, 43-1086.01, 43-1086.02, 43-1174, 4-1174.01 and 43-1174.02, credits are allowed for the following:

- The purchase or lease of an alternative fuel vehicle;
- The purchase and installation of a vehicle refueling apparatus;
- The construction or operation of an alternative fuel delivery system.

The taxpayer shall claim the credit with the filing of the Arizona income tax return.

In accordance with S.B. 1004, Section 37 (A), the Director of the Department of Revenue shall report the following amounts related to:

- The aggregate dollar amount of alternative fuel related credits claimed under sections 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01 and 43-1174.02, Arizona Revised Statutes, on income tax returns during the preceding calendar month.

For the period of May 1 through May 31, 2002, the department received 117 individual income tax returns with claims for alternative fuel related credits totaling \$1.1 million. A total of 5,479 individual income tax returns with claims have been received from January 2001 through May 2002, totaling \$100.9 million in credit. The department also received 6 corporate income tax returns in May with claims for alternative fuel related credits totaling \$365,000. A total of 193 corporate income tax returns with claims have been received from January 2001 through May 2002, totaling \$18.0 million in credit.

- The dollar amount of verified credits claimed in the preceding calendar month not used to offset income taxes under title 43, Arizona Revised Statutes.

For the period May 1 through May 31, 2002, the department issued 93 individual income tax refunds for alternative fuel related credits. There was \$1,201,531 in AFV credits on these returns. After offsetting \$185,889 in liability, \$1,015,642 was refunded. The department issued 1 corporate refund for alternative fuel related credits. There was \$11,500 in AFV credit on this return. After offsetting \$2,949 in liability, \$8,551 was refunded.

Combining the corporate and individual income tax return amounts results in \$1,024,193 that should be transferred from the Budget Stabilization Fund into the General Fund for May 2002. In last fiscal year, \$66,360,441 was paid from the Budget Stabilization Fund into the General Fund. In this fiscal year, \$32,687,252 is the total to be paid from the Budget Stabilization Fund, putting the overall total coming from the Budget Stabilization Fund for alternative fuel vehicle credits at \$99,047,693.

- The cumulative dollar amount of the credits claimed in all taxable years, beginning from and after December 31, 2000.

The cumulative dollar amount of credits (individual and corporate) claimed is \$118.8 million.

- Any estimated amounts remaining to be claimed as credits in each fiscal year. Through May 2002, 5,672 (corporate and individual) claims have been received. Those claims reviewed include 5,419 claims for 6,021 vehicles, claims for 30 refueling stations and claims for 632 refueling apparatuses. (Claims that have

(Continued on page 4)

NATIONAL RESEARCH PROGRAM

By George R Lydford, IRS

Earlier this year, the IRS proposed to reestablish a key component of its ongoing compliance effort to help ensure fairness for America's taxpayers. The National Research Program (NRP) is designed to accurately measure tax compliance while minimizing the need to contact taxpayers during the process.

The NRP is developing innovative approaches to measure taxpayer compliance with the tax law. It will: (1) be far less intrusive and burdensome on taxpayers than previous compliance studies; (2) help the IRS build better compliance programs to more effectively catch tax cheating and help ensure all taxpayers pay a fair share; and (3) help reduce audits of taxpayers who filed an accurate return by at least 15,000 tax returns a year.

As part of ongoing compliance operations, NRP will focus on measuring

three key areas of tax administration – filing compliance, payment compliance and reporting compliance. A key element involves measuring the accuracy of reporting information on tax returns. The IRS has overhauled the reporting component to minimize disruptions to taxpayers during the study.

Ultimately, this project will help all taxpayers by giving the agency timely, accurate information about tax compliance. This information will allow the IRS to replace outdated audit selection formulas and develop compliance efforts directed toward the tax returns most likely to have errors, rather than those from honest taxpayers.

In late fall of this year, the NRP will begin reviewing a small, statistically valid sample of individual returns from the 1040 family. The IRS will work closely with tax practitioners, Members of Congress and other key stakeholders to finalize the project.

Annual Bond Exemption Certificates

Annual Bond Exemption Certificates will be mailed out by July 27, 2002. These exemption certificates are effective August 1, 2002 and expire July 31, 2003. In order to qualify for the annual bond

exemption certificate, contractors must report and pay on a timely basis for two years. Otherwise, contractors must request a one-time exemption for building permit(s) on all projects over \$50,000.

Alternative Fuels (Continued from page 3)

not yet been reviewed are not included in this count.) While most returns for 2000 filers have been received, there may be additional claims made through late filers and amended returns. Also, according to grant applications, there are taxpayers who will first qualify for a credit on their 2001 tax returns. At this time, the department has no

independent means of estimating the amount yet to be claimed.

If you should have any questions, please contact Anthony Forschino at:

(602) 542-4672.

Very truly yours,

Mark W. Killian

Director

PROMINENT CHANGE AGENT VISITS DOR

The DOR Leadership Team and select Revenue employees had the privilege of attending a special workshop led by Mr. Ken Miller of the Missouri-based Change and Innovation Agency. Fast Company Magazine recently named Mr. Miller as one of the top change agents in the country. The Change and Innovation Agency is dedicated to assisting change agents and organizations radically improve performance.

Prior to going into the consulting business for himself, Mr. Miller put his theories into practice as Deputy Director of the Missouri Department of Revenue. He led the change initiative there to improve customer satisfaction, reduce tax processing times and motor vehicle wait times. He was successful in leading the Missouri Revenue employees in reducing the time it took to issue tax refunds by 80% at less cost, reducing the time to issue motor vehicle titles and registrations by 80% at less cost, and reducing motor vehicle wait times by 50%. This success story allowed the Missouri Department of Revenue to win the prestigious Missouri Quality Award, the state award for performance excellence modeled after the national Malcolm Baldrige award.

Mr. Miller led the DOR teams in his “We Don’t Make Widgets” workshop, where he focuses on defining work as a tangible product. A work product is a deliverable created as a result of a work activity. It is difficult for us in the service industry to visualize what work we do outside of the *processes* we follow in doing our jobs. The teams learned that it is critical to know *who* their customers are after successfully identifying their tangible work products. Mr. Miller explained that the customer is defined by the work product and what role the customer plays in relation to that product. Furthermore, the teams learned that it is just as important to know what it



Above: **Ken Miller** of *Change and Innovation Agency* presents the workshop “We Don’t Make Widgets” to DOR employees and management.

is that the customers want from us in their interactions with us – the outcomes or results. He also explained the difference between customer service and customer satisfaction. Customer service is only that small “moment of truth” part where taxpayers interact with DOR employees in the larger overall customer satisfaction process. Mr. Miller also explained that organizations should focus on customer satisfiers (what is it that *the customer* really wants) rather than dissatisfiers (what *we think it is* that they want).

The DOR Leadership Team will take some of Mr. Miller’s theory and put it into practice here. The Leadership Team will look at our Strategic Plan to see about grouping established strategies into related work products. They will revisit defining the desired results of DOR, identifying key systems most vital to achieving those results, and prioritizing systems for improvement (outside of the technological side of BRITS), and forming project teams to improve those systems.

AZ DOES NOT ALLOW 30% “BONUS” DEPRECIATION

Governor Jane Dee Hull signed HB 2712 updating Arizona’s income tax code to include most of the recent federal changes. Some of these changes are retroactive. Effect on 2002 Arizona returns Arizona conforms with federal changes that have been made through March 9, 2002, including most of the changes effected by the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) that President Bush signed on that date. The only change that Arizona did not adopt is the additional 30% first-year depreciation for qualifying assets purchased and put into service after September 10, 2001.

Effect on 2001 Arizona returns Arizona conforms to the retroactive changes effected by the Economic Growth and Tax

Relief Reconciliation Act of 2001 (P.L. 107-16) and most of the retroactive changes effected by the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147). The only change that Arizona did not adopt is the additional 30% first-year depreciation for qualifying assets purchased and put into service after September 10, 2001.

Any taxpayers who already filed the Arizona income tax return for tax year 2001 and did not make an adjustment for any 30% additional first year depreciation claimed on the federal return for capital assets purchased and put into service after September 11, 2001 must now file an amended Arizona return to make that adjustment. *This also applies to fiscal year taxpayers for fiscal years ending after September 10, 2001.*

CHANGE IN CITY TAX CODE: WINSLOW/WILLCOX

Winslow Effective July 1, 2002:

In a general election held May 21, 2002, the City of Winslow was authorized to continue the Additional 2% Tax on Transient Lodging. The tax was approved for an additional five years beginning July 1, 2002.

Willcox Effective August 1, 2002:

The Mayor and City Council of the City of Willcox passed ordinance 240. Ordinance 240 increases the Willcox City Privilege Tax from 2% to 3%. The tax rate increase affects the following classifications:

- ◆ Advertising
- ◆ Amusements
- ◆ Construction contracting
- ◆ Job printing

- ◆ Manufactured buildings
- ◆ Timbering & other extraction
- ◆ Publishing
- ◆ Rental Occupancy
- ◆ Hotels
- ◆ Rental of real property
- ◆ Restaurants and Bars
- ◆ Retail sales
- ◆ Telecommunications
- ◆ Transporting for hire
- ◆ Utilities

This increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. Pre-existing contracts should be reported using CODE WC9 at a rate of 2%.

2002 ARIZONA TAX CONFERENCE

Co-sponsored by the Arizona Association of Assessing Officers
and the Arizona Department of Revenue

October 30, 31, and November 1, 2002

Registration will also be available on-line this year.
(beginning in September)

Location: Hyatt Regency Phoenix

122 North Second Street
Phoenix, Arizona

Hotel Rate: \$90.00 (+12.07% tax) Single/Double

For early hotel registration, call 602-252-1234 or 1-800-233-1234
and mention that you are with the Arizona Tax Conference.

For information regarding the Hyatt Regency Phoenix visit www.phoenix.hyatt.com.

The Golf tournament will be on Wednesday, October 30, 2002

Coldwater Golf Club

100 N. Clubhouse Drive, Avondale, AZ

8:00 a.m. shotgun start - \$65.00 fee.

For information regarding the Coldwater Golf Club visit www.coldwatergolfclub.com.

For more information, contact **Vicki Chappel** or **Carolyn Joya**
at the Arizona Department of Revenue, 602-542-3529, ext. 4802.

ATTENTION SMALL BUSINESS OWNERS

The Department of Revenue created a computer application for you, the small business owner! The A-Z Taxes for Small Business allows you to use your computer to complete:

- ♦ Transaction Privilege Tax Returns
- ♦ Withholding Tax Returns
- ♦ Unclaimed Property Reports

The program also provides:

- ♦ Tax Requirements
- ♦ What You Need to Before You Begin
- ♦ DOR Publications
- ♦ Special Tax Situations

For a limited time only the A-Z Taxes for Small Business is **FREE** from the Department of Revenue on CD-ROM. Visit the Department's website at www.revenue.state.az.us to order online or send your request and a return address to: **Arizona Department of Revenue, PO Box 29032, Phoenix AZ 85038.**